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## **BUILDING BLOCKS FOR THE SOLIDARITY ECONOMY**

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## Foreword

After having ushered in the Asian Solidarity Economy Forum (ASEF) in Manila (2007) and Tokyo (2009), the Coalition of Socially Responsible SMEs in Asia (CSRSME Asia) is reaching a new plateau and currently faces new challenges and a qualitatively different kind of environment. At the global level, systemic crisis has intensified poverty and inequality. Food prices have escalated and increased the incidence of hunger, pushing many more people into absolute poverty. Contraction of trade and manufacturing drove more people into vulnerable employment, increasing unemployment/ underemployment and diminishing household incomes

The global crisis has wreaked havoc on domestic economies. High cost of inputs, lack of fair credit, & lack of access to wholesale market have discouraged farm production. Controlled by profiteering private traders, the agricultural marketing system is stacked against farm producers and urban consumers who themselves are fragmented. People as a whole lack unity and the political will to advance towards a sustainable and socially responsible economy.

Acting on its vision towards a compassionate, solidarity-based economy, the CSRSME Asia espouses the notion of building an alternative economy by bringing together various socio-economic stakeholders in a continuing dialogue and cooperation. It has organized and/or supported Learning Journeys in several countries (e.g. Indonesia, India, Japan, Nepal, Malaysia, Philippines, Singapore, and Thailand) to engage various stakeholders in the challenge of rethinking the economy.

Against this backdrop, the CSRSME Asia with funding support from the Charles Leopold Mayer Foundation (FPH) and in collaboration with some Universities and a host of civil society organizations in Asia, has called for an Asian Dialogue on Oeconomy on a broader scale with the aim of broadening the understanding of alternative economies and how to deal with the new environment in the coming years through sharing of research studies, reflections, and proposals.

“Building Blocks for the Solidarity Economy” by Basilio M. Rodriguez, Jr. is one of the case studies currently being circulated among contributors and subscribers to the Asian Dialogue on Oeconomy. It is hoped that the Asian Dialogue on Oeconomy will help build a robust exchange of information and experience sharing that could impact the development of solidarity economy initiatives in Asia and beyond.

CSRSME Asia  
Quezon city, Philippines

## **Introduction**

As early as 2009, the Coalition for Socially Responsible Small and Medium Enterprises in Asia (CSRSME Asia) embarked on an effort to put together a series of case studies on enterprises or organizations in Asian countries whose aspirations and operations were consistent with the principles of a solidarity economy. This initiative evolved in 2010 into the Asian Dialogue on Oeconomy.

The objective of this exercise was to support CSRSME Asia's advocacy to promote and build a solidarity economy through 1) the transformation of individuals and organizations and 2) raising general awareness that capitalism (and its focus on profit-making and competition) is not the only economic system. Through these cases, CSRSME Asia started the documentation of practices and opportunities for the promotion of the solidarity economy.

It was hoped that the case studies would contribute significantly to making individuals and organizations see and appreciate that there are economic systems that place emphasis on human needs, relationships, cooperation, equality, diversity and self-determination – micro-economies that choose to serve the needs of people and ecological sustainability rather than the maximization of profits and the rule of the market. These micro-economies collectively are what will eventually be called the solidarity economy.

However, CSRSME Asia believes that advocacy efforts should go beyond mere awareness – these efforts should move individuals and organizations to build and expand the solidarity economy 1) by amending the manner in which they consume, purchase and transact business, 2) by initiating new institutions or solidarity micro-economies, and/or 3) by establishing new relationships, new partnerships and new networks to strengthen the solidarity economy. Finally, CSRSME Asia's advocacy, through these case write-ups, is also directed at making people realize that a solidarity economy is achievable.

## **Case Studies in the Philippines**

From mid-2009 to the first quarter of 2010, CSRSME Asia has completed the review of three Philippine firms/ organizations that effectively demonstrated certain elements of solidarity – San Jose Kitchen Cabinets Manufacturing, Upland Marketing Foundation, Inc. and the Bacungan Coastal Development Resident Association, Inc. These case studies triggered the exchange of similar studies in other Asian countries that later on provided the impetus for what is now called the “Asian Dialogue on Oeconomy”.

### **San Jose Kitchen Cabinets Manufacturing**

Oscar Chan, proprietor of San Jose Kitchen Cabinets Manufacturing, shared with CSRSME Asia his experience in designing and implementing a profit-sharing

mechanism for employees of the firm. He said it was important for a company to have a simple, straightforward profit-sharing formula that employees could understand. San Jose Kitchen Cabinets' formula provides for the equal sharing (50:50) of profits between capital and labor after their basic needs are met. This formula recognizes the principal that capital cannot exist without labor and that labor cannot exist without capital.

Under this formula, the basic needs of both labor (living wage) and capital (an inflation factor applied to outstanding equity) are deducted, along with direct expenses (cost of goods sold) and other non-personnel expense related operating expenses, from company revenues. Whatever is left behind, will be shared equally between capital and employees. Employee benefits, such as government mandated benefits, insurance, retirement fund contributions and leave conversion to cash, will be taken out of the workers' 50% share. The remaining balance, if any, of the workers' share will be distributed to the individual employees following a formula taking into consideration their performance and job levels.

In the event the company incurs a loss, or if the profits are not sufficient in any one year to cover the inflation allowance for capital and/or the cost of employee benefits, the loss or the uncovered portions of the inflation allowance and/or employee benefits will be recorded as a receivable to be paid the company from the capital and/or employees' share of profits in the next profitable year or years.

Oscar believes that the company's policy and practices in profit sharing are a major factor in the company's survival, growth and profitability. He proudly reports that the company has been profitable in twenty-three of the company's twenty-six years of existence.

### **Upland Marketing Foundation, Inc. (UMFI)**

UMFI shared with CSRSME Asia the organization's experiences in building value chains to bring commodities (rice, muscovado, fruit jams, etc.) produced by poor communities and small and medium enterprises (SMEs) to mainstream markets (i.e., supermarket chains). The organization shared the lessons they learned and challenges they continue to face in establishing and maintaining relationships not only with the producer communities but also with the players in the distribution channels.

Although UMFI is a non-government nonprofit organization, it made the decision to become a market player (buying and selling products) upon its realization that there were serious gaps in the market chain for products from poor communities. In order to address these gaps on a sustainable basis, UMFI made the decision to embed marketing services (technical assistance, product development, packaging, consolidation, distribution, etc.) in its market transactions with the producers. It processes the produce it buys from poor communities and distributes these under its own brands. From three upland community enterprises in 2001, UMFI now regularly

deals with twenty-two community enterprises from upland, lowland and coastal areas. Another thirty community enterprises serve its seasonal markets.

The retail outlets in Metro Manila through which UMFI distributes these community products include South Supermarket, 7-Eleven, Gotesco Grand Central and SM Supermarakets (and related stores). UMFI's brands include "Healthy Rice", "High Fiber Rice" and "Farms & Cottages".

The organization recognizes its major challenges to be: 1) product supply in quantities and quality demanded by the market, 2) working capital to purchase and store products on a continuous basis, and 3) maintaining trust in the relationships within the value chains.

### **Bacungan Coastal Development Resident Association, Inc. (BCDRAI)**

BCDRAI is an association of dwellers in the mangrove forests located in Sitio San Carlos, Barangay Bacungan in Palawan. For many years, these residents made a living fishing along the estuaries, collecting whatever they could (nipa, pandan, crabs and bivalves) from the mangroves and charcoal making. Witnessing the increasing degradation of the mangroves and surrounding coastal areas, the residents realized that their livelihoods were at risk. In 2001, the community organized BCDRAI, a people's organization, to address conservation, community-based law enforcement and enterprise development concerns. They were assisted in these endeavors by local NGOs, the Department of Natural Resources and the local government units.

In 2002, the residents seriously considered eco-tourism as a way for them to generate livelihood and employment opportunities as well as to continue their efforts to conserve the mangrove forests. For this purpose, they started the San Carlos Mangrove Eco-tourism Project and organized themselves to receive eco-tourists interested in touring the mangroves of San Carlos and adjacent sites. The community now operates day-tours whose main feature is a 90-minute river boat/raft ride through the mangrove forests. During this tour, visitors receive a lecture, conducted by residents trained for this purpose, on the mangrove forest and the importance of mangroves to the environment. Eco-tourists also get to see the flora and fauna of the mangroves.

Fees collected from the eco-tourists are shared among the community residents who serve as guides, lecturers, boatmen, and groundskeepers (in the reception area). Since the visitors are also provided with snacks upon their arrival, women who prepare native cakes for these purposes also earn income. A portion of the fees are also set aside for facilities improvement and mangrove conservation.

Palawan NGO Network, Inc. (PNNI) promotes BCDRAI's tour packages under their Pasyar Program. Under the Pasyar Program, the BCDRAI mangrove eco-tour is linked with other community-based eco-tours that have since been established. The mangrove tour is now available in conjunction with a tour of Honda Bay (featuring snorkeling in the surrounding reefs and dolphin-watching).

Finally, the success of BCDRAI in organizing themselves to conduct these eco-tours has also opened other opportunities for them. The community now also receives grants for mangrove conservation and rehabilitation projects.

## **Underlying Themes**

There are a number of themes that were consistently present in all three cases. These themes include:

### **1. Serving the Needs of People**

All three cases clearly demonstrate how organizations can address and serve the needs of people, thus qualifying each of them to be considered as solidarity micro-economies.

Serving people's needs is often difficult to appreciate in the case of for-profit firms. San Jose Kitchen Cabinets is, however, able to demonstrate that it was organized not only to provide livelihood for its owner, Oscar Chan, but also for its employees. Ordinary firms view personnel salaries and benefits as an expense that should, as much as possible, be kept to a minimum in order to maximize enterprise profitability. San Jose Kitchen Cabinets' determination to maintain and consistently implement an equitable profit-sharing policy demonstrates the enterprise's recognition that it cannot survive without its employees – a concern that they advocate should be carefully balanced against profit making.

As nonprofit organizations, UMFI and BCDRAI's purpose to serve people's needs is easier to appreciate. UMFI was organized primarily to provide access of community enterprises to markets for their products. It was organized after the Upland NGO Assistance Committee (UNAC) failed in its initial efforts to engage private traders to perform this function. The fact that UMFI serves the needs of people is evident in the investments it has had to make and losses it has had to incur to develop community products to the level (in terms of quality, packaging and economical order quantities) that they became acceptable to mainstream distribution channels. Although UMFI has recently started registering profits, UMFI, as a nonprofit organization, will have to channel these profits to community enterprise support and product development programs. On the other hand, BCDRAI, as a resident association, was established to benefit its members by addressing their need to protect the community environment and generate livelihoods.

### **2. Partnering with Others (Individuals and Organizations)**

Unlike large corporations/organizations that desire to stay in control and thus try to do everything and keep everything to themselves, smaller firms and organizations like those represented in our cases recognize the need to work with other individuals and organizations in order to succeed.



In San Jose Kitchen Cabinets, Oscar Chan recognized the need to partner with his employees if he wanted the business to succeed. The company's profit-sharing policies and practices embodied the partnering effort. In fact, Oscar Chan, after 27 years, still makes an effort to continuously improve his system, to communicate the system and the principles behind the system to his employees and encourages other firms to share profits with employees in a transparent and easily understood manner.

UMFI, meanwhile, focuses considerable effort on establishing and maintaining relationships with the community enterprises it provides marketing services to. UMFI, in fact, is viewed by community enterprises as a major partner given the technical, product development and distribution services it provides. UMFI is also working on establishing partnerships with microfinance and other institutions that may be in the position to provide financing for the production activities of the community enterprises. UMFI has also had to work closely and build relationships with the various entities serving as its distribution channels.

Although BCDRAI is an excellent example of a self-help initiative, this initiative would not have been successful without establishing linkages and partnerships with NGOs, LGUs, donor agencies, other Palawan communities now offering similar eco-tourism opportunities and even business establishments like hotels, travel agencies, tour operators and the like.

### **3. Leadership**

The cases demonstrate that leadership is a critical element of success, particularly in focusing efforts on the common good. If Oscar Chan embarked on developing San Jose Kitchen Cabinets' profit sharing policies and practices only because it was good for the growth and profitability of the company rather than out of a deep personal sense of social justice, the profit sharing practices of the company would not have worked and would probably have been abandoned years ago. If UMFI's Director, Rene Guarin, failed to model his values for trust, transparency and accountability to the community enterprises that had agreed to become part of his value chains, many of these value chains would have unraveled at the first difficulty in the market. Finally, the community leaders of BCDRAI would not have been able to organize and implement the eco-tourism and other community projects if they had not demonstrated responsible leadership.

### **4. Building Trust**

Closely related to leadership and partnerships is the issue of trust. All cases placed a high level of importance on trust. Profit sharing policies will not work without trust. Value chains will easily break apart without trust. Community organizations will not be effective without trust. In addition, the organizations will also not be able to relate to other individuals and organizations without trust.

In this regard, organizations reviewed highlighted the need to communicate effectively internally and externally. They also emphasized the need for individuals and organizations to establish transparency and accountability.

## **5. Creating Islands of Solidarity**

Finally, all three cases depict arrangements that were established to allow groups of individuals to function within a system where they would have otherwise been excluded or exploited. Oscar Chan recognized that laborers were not given the social justice they deserved. UMFI saw how poor communities could not sell their produce due to quality, quantity and/or packaging issues. Whatever produce that could be sold were sold at very low prices in the local markets or to traders taking advantage of gaps in the market chain. The residents of the mangrove areas in Sitio San Carlos could do little by themselves to increase their livelihood as their catches and harvests dwindled due to the continuing destruction and degradation of the mangroves.

Oscar Chan therefore put in place profit-sharing policies and practices that allowed the employees of San Jose Kitchen Cabinets to share in the growth and profits of the company. UMFI worked with community enterprises, organized them and provided them with the technical support they needed to become credible and legitimate sources of supply, as far as mainstream distribution channels were concerned. The residents of Sitio San Carlos, organized BCDRAI in order to have a vehicle to undertake community projects that would contribute to their livelihoods and to the protection of their environment.

However, these organizations continued to focus on the survival of their micro-economies in a capitalist world. They tried to build islands of solidarity in a highly competitive, profit-driven sea called the market economy.

### **Issues to Keep in Mind as We Build the Solidarity Economy**

Although the effort to compile cases has just begun, these three cases have started to bring up issues that will be important to consider as we build the solidarity economy. The major issues that have been identified through these cases are:

#### **1. First Order Changes vs. Second Order Changes**

First order changes are those that relate to the formal aspects of an organization, a system or a micro-economy such as structure and the configuration of tangible assets (human, financial, information and other resources). First order changes have to do with management, logistics and task accomplishment. Second order changes, on the other hand, are those that involve changing mindsets, patterns of behavior and degree of legitimacy involving such things as motivation, power, space, meaning, values and identity. Needless to say, second order changes are deeper changes.

Our three cases show that, when attempting to establish solidarity systems, we often focus on first order changes. We consider adding, strengthening or restructuring our

resources. We look at how we manage our system to ensure that it flows smoothly and efficiently. UMFI, for example, because of the need for the products it carries to compete with products from other (non-solidarity) systems, often focuses on first-order changes.

Building a solidarity economy, however, requires second order changes. From experience, it seems easier to work with “transformed” individuals and organizations – those who have embraced the concept of solidarity out of religious, moral or other convictions. In fact, all our cases, were initiated in this manner. Oscar Chan refers to his spiritual and social convictions, UMFI was organized to help marginalized communities and BCDRAI was a self-help community initiative.

Expanding the solidarity system beyond these “islands”, however, requires a shift in attitude and motivation, especially if the organizations have seen themselves fighting to survive in a market economy for many years. This is when they have to refocus their approaches away from first order changes to second order changes.

## **2. The Role of Individuals**

The three cases also highlight the need for us, as we build the solidarity economy, not to focus only on structures and systems. Although configuring organizations and systems into social and organizational patterns continues to be important and the external context (global and national conditions) remain critical, we should not lose sight of individual people who can contribute or not to contribute to the building of solidarity systems.

BCDRAI has demonstrated how individuals contribute to their eco-tourism project. UMFI has highlighted the fact that it is the individual participant in the value chain that keeps the chain moving forward. San Jose Kitchen Cabinets demonstrates the value of leadership to the establishment of a solidarity system.

## **3. Capability to Commit and Engage**

The three cases have very clearly demonstrated that an organization or micro-economy, in order to contribute to the building of a solidarity economy, will have to be able to commit and engage. Baser and Morgan, in their study report, Capacity, Change and Performance (April 2008) say that this is an often overlooked but very important capability. They argue that this capability to commit and engage is about human, social, organizational and institutional energy and agency.

Both UMFI and BCDRAI have this ability to commit and engage. Both organizations, as well as their members and staff, have the motivation, determination and commitment to move forward in carrying out or achieving their respective missions in spite of difficulties and constraints. Both organizations demonstrate the following abilities that Baser and Morgan say are important elements of the capability to commit and engage – the ability to encourage mindfulness, the ability and willingness

to persevere, the ability to aspire, the ability to take ownership, and the ability to be determined.

These are the abilities that advocates of the solidarity economy should encourage developing in solidarity micro-economies. The solidarity economy cannot be built up on organizations and systems that find themselves stuck in a “low commitment, low capacity and low performance equilibrium.”

#### **4. Network Weaving**

The solidarity economy will have to be built on connections across solidarity systems and communities. While the organizations we have used as subjects of our case studies can be considered good examples of solidarity systems, all of them remain, to a large extent, islands of solidarity. Unless these and others are able to break out of their islands and connect to other solidarity organizations and systems, the growth and development of a sustainable solidarity economy will be slow.

Connectivity across systems and communities can be improved internally and externally using network ties to create economic opportunities. Social networking specialists promote the improvement of connectivity through an iterative process of knowing the network and knitting the network.

Knowing the network normally begins with the construction of a network map graphically showing nodes (people, groups or organizations) and links (showing relationships, flows and transactions). The map allows the visual tracking of ties and the design of strategies to create new connections. Scientists use the term “emergence” to describe the phenomenon where local interactions lead to global patterns. They say that emergence can be guided by understanding and catalyzing connections. Furthermore, vibrant networks are normally built in four phases – scattered fragments, single hub and spoke, multi-hub small world and core/periphery.

To move community/network development from the small scattered fragments stage to the spoke and hub network stage, active leaders, also called network weavers, are required. Network weavers actively create new interactions between scattered fragments rather than allowing them to drift aimlessly.

Network weavers serve as hubs of the hub and spoke networks and work actively to connect diverse individuals and groups and start the flow of information between them. Weavers also have external links outside the networks to bring in information and ideas. The hub and spoke network is however, a temporary configuration and changes as the weaver begins connecting the spokes to each other by encouraging collaboration and the provision of assistance to one another. The weaver builds relationships and facilitates collaborations for mutual benefit. Eventually, a multi-hub network evolves and as weavers connect clusters across networks and communities, a core/periphery structure emerges.

## **Conclusion**

The valuable insights we have obtained from the three cases completed thus far, are indications that CSRSME Asia should pursue the gathering of information and documentation (in the form of case studies) of various expressions of solidarity.